THE BECKER MILK COMPANY LIMITED Annual Report Year ended April 30, 1973

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Some of Becker's private label products

Highlights of the year

	Year Ended April 30		
			Percentage
	1973	1972	Change
Sales	76,084,930	68,670,017	+10.8
Operating earnings	3,950,902	4,381,989	− 9.8
Net earnings	1,364,698	1,611,144	−15.3
Earnings per share	.77	.92	−16.3
Long term debt	2,433,004	2,667,337	− 8.8
Shareholders' equity	9,042,693	7,884,081	+14.7
Shares outstanding — Class A	5,675	5,675	—
— Class B	1,179,610	1,179,610	—
— Common	540,750	540,750	—
Number of Stores	392	374	+ 4.8
Number of employees	1,615	1,489	+ 8.5

Robert Lowe

Frank A. Bazos

Directors' report to the shareholders

We are pleased to submit this report of our sixteenth year of operations. It has been a challenging year and a period of consolidation and adjustment in the face of ever increasing costs and of competition.

The past few years have been notable for the intense competition in food retailing. An almost distinct pattern had developed with periodic escalation of competitive activity followed by easing of the pressures.

Fierce "price wars" and advertising campaigns have been waged, resulting in reduced profit margins for some of the contestants and outright losses for others. Such peaks of activity have been succeeded by periods of relative stability in the industry and hopes of improving profit margins.

Fiscal year ended April 30, 1972, was in fact a period of improved business conditions and easing of competition. This was very clearly reflected in our operating results for that year. We had hoped that such conditions would continue during fiscal year 1973 but there were still some late entries in the competition for alleged savings and convenience to the consumer.

This year has been further complicated by the escalation of all costs but in particular of the cost of food. These extraordinary increases in food costs have sparked unprecedented consumer awareness and activity and have resulted in a further tightening of gross profit margins.

We have been faced with rapidly increasing costs of operations combined with the difficulty of obtaining a higher gross profit on sales from the already hard pressed consumer. Now the measurement of each stores contribution to the overall profit of our operations has become even more important than before.

In the past few years we have found it advantageous to close some marginal stores. Due to the escalation of costs, some stores which produced some profit before may now be unprofitable at the same level of sales and should be closed in the interest of overall operating efficiency.

The continued evaluation of store performance in the light of current conditions and costs is reflected in the number of outlets closed during the year. A total of 21 stores were closed,

19 of these in our original marketing area in and around Metro Toronto.

The openings of new stores too reflect the caution exercised in selection and only 39 new stores were opened. The resulting net increase in the number of outlets was 18 stores or 5%. Due to the relatively higher number of closed stores in the Metropolitan Toronto area, over 60% of the net additions to stores were in areas outside Metro.

It has been disappointing to us that during this past year we were not able to establish new performance records again. However, the results must be evaluated in the light of the current conditions.

Considering the adverse conditions, we feel that our operating results were very satisfactory.

Our sales reached $76,084,930, an increase of 11%. The net earnings from operations showed a decrease of 15% to $1,364,698. This is the equivalent of 77 cents per share and compares to 92 cents per share for the previous year.

We are confident that the changes and adjustments made during the last year will continue to exert favourable influence upon our future operating results and growth. We are particularly pleased with the results during the year of our experimental franchising programme. It appears that the direct interest of the franchisee and his ability to institute economies of operation have made this limited programme an unqualified success. We have already taken steps to expand and accelerate this programme.

The experience gained from our franchising programme has enabled us also to start making certain changes in the operation of Company owned stores. Here some managers now have greater interest in the operations and can benefit from the economies in some expenses controllable by themselves.

Our confidence in the continued growth and profitability of our operation is reflected in the steps taken during the year to further expand our Becker Country and in the significant capital expenditures undertaken at our plant to enlarge and modernize our ice cream production facilities.

From the map of our Becker Country you will see that our area of operations has now been increased by the addition of a milk marketing area to the east of our previous boundaries. The purchase of the Marmora Dairy came late in our fiscal year and the opening of our first store in the area was after the year end.

Capital expenditures for store acquisition and construction have continued at about the same level as during the last few years. The most important capital expenditure during the past year has been at our plant. We have added 23,000 square feet of much needed ice cream storage and production area and have installed new machinery. This new facility is scheduled to start production early in our new year.

We have been able to finance our capital expenditures from the cash flow from operations and still retain a favourable working capital position.

We are looking forward to an excellent year and expect to be able to return to the establishment of new records of growth and profitability. We are confident we can reach this goal with the continued support of our staff, suppliers, shareholders and of course, most important, our Customers in the Becker Country.

Sincerely,

Frank A Bazos

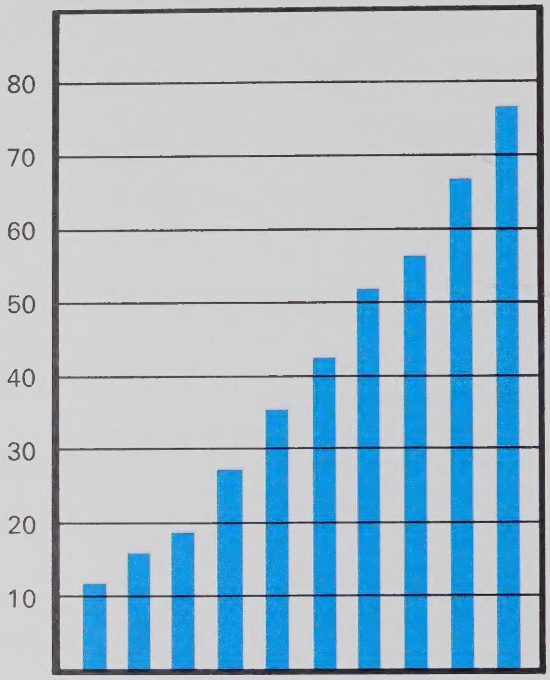
Chairman of the Board

Robert W Lav

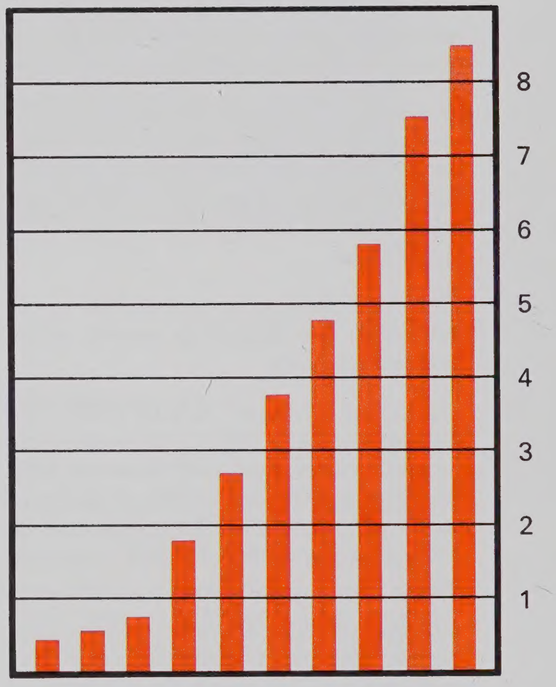
President

Financial Position

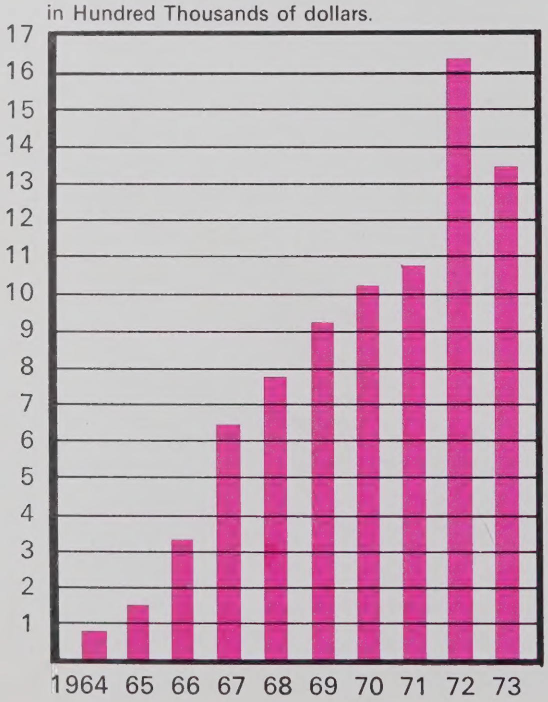
Total Sales
in Millions of dollars



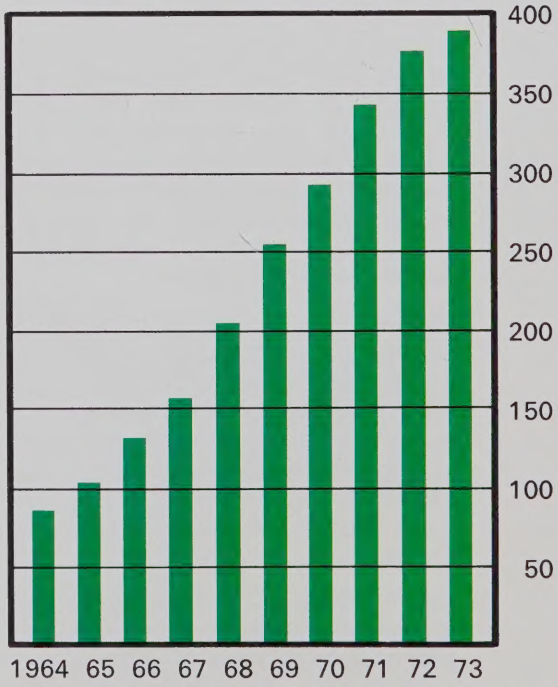
Shareholders' Equity
(Class B and Common) in Millions of dollars



Net Earnings (after tax)
in Hundred Thousands of dollars.



Number of Stores



The Becker Milk Company Limited and Subsidiary Companies

Consolidated Statement of Retained Earnings
For the year ended April 30, 1973

	1973	1972
	$	$
Balance at beginning of year	6,448,838	5,043,723
Net earnings for the year	1,364,698	1,611,144
	7,813,536	6,654,867
Dividends — class A preference shares	34,050	34,050
— class B preference shares	117,961	117,904
— common shares	54,075	54,075
	206,086	206,029
Balance at end of year	7,607,450	6,448,838

Consolidated Statement of Earnings
For the year ended April 30, 1973

	1973	1972
	$	$
Sales — Note 11	76,084,930	68,670,017
Cost of goods sold	55,497,828	49,974,910
Gross profit	20,587,102	18,695,107
Operating expenses	16,636,200	14,313,118
Earnings before depreciation and amortization, interest charges and taxes on income	3,950,902	4,381,989
Depreciation and amortization	1,199,672	1,110,483
Interest charges	174,032	175,962
Taxes on income	1,212,500	1,484,400
Net earnings for the year	1,364,698	1,611,144
Net earnings per class B and common share	.77	.92

The Becker Milk Company Limited and Subsidiary Companies

Consolidated Balance Sheet
as at April 30, 1973

ASSETS	1973	1972
	$	$
Current Assets		
Cash	618,399	1,236,871
Marketable securities — at cost	5,073	6,073
Store managers' accounts and sundry accounts receivable	199,170	273,582
Advances to employees	5,255	7,755
Inventories —		
Plant, at lower of cost or net realizable value	1,083,105	1,190,675
Stores, at lower of cost or net realizable value less normal profit margin	3,384,345	3,227,700
Corporation income tax refund due	272,487	—
Prepaid expenses and deposits	233,790	208,644
Chattel mortgages receivable	33,598	—
Mortgage receivable	13,813	1,167
	5,849,035	6,152,467
Investments		
Chattel mortgages receivable — less current portion	150,590	—
Mortgage receivable — less current portion	16,386	15,198
	166,976	15,198
Fixed Assets — Note 2		
Assets — at cost	16,166,941	14,911,675
Less: Accumulated depreciation and amortization	6,189,496	5,309,126
	9,977,445	9,602,549
Other Assets		
Rent deposits	13,580	13,580
Progress draws on building construction	761,499	15,006
Payment in respect of retail sales tax assessment — Note 3	163,375	163,375
Sundry	60,829	92,712
	999,283	284,673
The accompanying notes are an integral part of the consolidated financial statements	16,992,739	16,054,887

Approved on behalf of the Board:

Frank A. Bazos
Director

Robert W. Lowe
Director

LIABILITIES	1973	1972
	$	$
Current Liabilities		
Accounts payable and accrued charges	4,455,197	3,873,487
Dividends payable — Note 7	113,055	113,055
Equipment instalments	163	2,201
Income and other taxes payable	47,069	780,797
Manager bond deposits	169,500	—
Sundry mortgages payable — Note 5	29,937	94,308
	4,814,921	4,863,848
Long-Term Liabilities		
Managers' bond deposits	—	313,375
Series C debentures — Note 4	2,000,000	2,000,000
Sundry mortgages payable — less current portion — Note 5	358,809	341,346
Other	74,195	12,616
	2,433,004	2,667,337
Deferred Income Taxes — Note 6	702,121	639,621
Total liabilities	7,950,046	8,170,806
SHAREHOLDERS' EQUITY		
Share Capital		
Authorized —		
8,000 — 6% cumulative class A preference shares with a par value of $100 each, redeemable at par		
2,459,250 — non-voting, non-cumulative, participating class B preference shares without par value		
640,750 — common shares without par value		
Issued and Fully Paid —		
5,675 — class A shares (last year 5,675)	567,500	567,500
1,179,610 — class B shares (last year 1,179,610)	867,455	867,455
540,750 — common shares (last year 540,750)	288	288
	1,435,243	1,435,243
Retained earnings — Note 7	7,607,450	6,448,838
	9,042,693	7,884,081
	16,992,739	16,054,887

The Becker Milk Company Limited and Subsidiary Companies

Consolidated Statement of Source and Use of Funds
For the year ended April 30, 1973

	1973	1972
	$	$
Source of Funds		
Operations		
Net earnings for the year	1,364,698	1,611,144
Charges not requiring an outlay of funds:		
Depreciation and amortization	1,199,672	1,110,483
Deferred income taxes	62,500	48,612
Sundry	3,073	6,280
	2,629,943	2,776,519
Other		
Increase in mortgages payable — net	17,463	73,086
Issue of class B shares	—	10,009
Sundry	93,462	12,616
	2,740,868	2,872,230
Use of Funds		
Purchase of fixed assets (net of disposals) and progress draw payments	2,324,134	2,114,360
Decrease in manager bond deposits	313,375	68,175
Dividends	206,086	206,029
Increase (decrease) in investments	151,778	(6,802)
Sundry	—	38,358
	2,995,373	2,420,120
(Decrease) Increase in working capital	(254,505)	452,110
Working capital at end of year	1,034,114	1,288,619
Working capital at beginning of year	1,288,619	836,509
(Decrease) increase in working capital	(254,505)	452,110

Notes to Consolidated Financial Statements as at April 30, 1973

1. BASIS OF CONSOLIDATION

The accounts of the subsidiary companies have been included in the consolidation from the date of their acquisition.

2. FIXED ASSETS

Fixed assets are classified as follows: —

	Cost	Accumulated Depreciation and Amortization	Net Book Value
	$	$	$
Land	1,273,044	—	1,273,044
Buildings and leasehold improvements	4,811,226	1,039,040	3,772,186
Store, production, automotive and office equipment	10,082,671	5,150,456	4,932,215
	16,166,941	6,189,496	9,977,445

3. RETAIL SALES TAX ASSESSMENTS

The Company has contested two assessments levied by the Ontario Retail Sales Tax Department for the period November 1, 1964 to April 30, 1970. The first assessment in the amount of $163,375 has been paid and the second assessment in the amount of $272,776 is still unpaid. The Company has received an opinion of legal counsel that at the present time it can successfully defend the foregoing assessments.

4. SERIES C DEBENTURES

The authorized maximum loan from the Company's bankers under these debentures is $4,000,000. Draw-downs may be made in minimum amounts of $500,000 to June 30, 1974. Interest on the amounts outstanding will be at 1% above the bank's prime lending rate and is payable quarter yearly. Repayment of the principal is to commence not later than December 31, 1974 in annual principal instalments of not less than 10% of total loans then outstanding. The loan may be prepaid at any time without notice or bonus. The Company's bankers will receive warrants to purchase class B shares at the rate of a warrant to purchase 2,000 shares per $500,000 loan so drawn-down in excess of $1,000,000 until warrants to purchase an additional 12,000 shares have been issued. The price per share shall be 10% above the closing bid quotation on the day previous to the draw-down with respect to which the warrants were issued and may be exercisable for a period of five years from the date of the draw-downs. Under an extension agreement, the bank's purchase price for the 4,000 shares per warrants issued to date has been reduced from $19⅛ (the price applicable at the date of draw-downs) to $15 each. The debentures are secured by a charge on all assets presently owned and hereafter acquired. Dividends may be paid on any class of shares provided capital and retained earnings exceed $3,250,000.

5. SUNDRY MORTGAGES PAYABLE

This amount covers 19 mortgages on properties purchased for retail store locations and additional warehouse and/or production facilities. The principal amounts mature up to 1983 with various interest rates not exceeding 11%.

6. DEPRECIATION

Depreciation has been calculated in accordance with the Company's established policy of amortizing the depreciable properties over their estimated useful life, with the exception of trucks and automobiles which have been depreciated at maximum normal rates permitted by regulation under The Canada Income Tax Act. The Company has continued to claim maximum allowances for income tax purposes.

7. DIVIDENDS

On December 31, 1972 the Company declared a dividend of $6 per share on its class A shares, being the dividend accruing from January 1, 1972 to December 31, 1972. This dividend, totalling $34,050, was paid on January 2, 1973. Dividends totalling 10¢ per share were declared on class B and common shares during the year.

8. FLOATING CHARGE DEBENTURES

$450,000 principal amount of debentures of the Company, due on demand and secured by a floating charge, are lodged with the Company's bankers as collateral security for loans outstanding from time to time.

9. REMUNERATION OF DIRECTORS AND OFFICERS

Expenses include $217,200 (last year $150,909) for remuneration of officers and $6,150 for directors' fees (last year $5,500).

10. LEASES

The minimum annual rentals payable (excluding insurance, property taxes and certain other occupancy charges) under the lease obligations for store locations amount to $1,984,107. The total minimum rental liability under leases (excluding insurance, property taxes and certain other occupancy charges) to the date of expiry or option, whichever occurs first, amounts to $11,704,082.

11. SALES

Sales include sales by company owned stores and sales by the Company to its franchisees.

12. FRANCHISING

As stated in Note 11, only Company sales to franchisees are included in sales. The earned portion of the franchise fees has been taken into income.

13. CONTINGENT LIABILITY

The Company is awaiting the decision of The Divisional Court of the Province of Ontario in its appeal of the finding that certain of its managers are employees under The Employment Standards Act (Ontario).

The financial effect of a final and binding decision that the managers are employees, cannot be assessed by the Company at this time.

LANGLOIS, HAUCK & COMPANY
CHARTERED ACCOUNTANTS
170 UNIVERSITY AVENUE
TORONTO 1

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of The Becker Milk Company Limited and its subsidiary companies as at April 30, 1973 and the consolidated statements of earnings, retained earnings and source and use of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings, retained earnings and source and use of funds present fairly the financial position of The Becker Milk Company Limited and its subsidiary companies as at April 30, 1973 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Langlois, Hauck & Company
Chartered Accountants

Toronto, Ontario, July 20, 1973

The Becker Milk Company Limited and Subsidiary Companies

TEN YEARS OF PROGRESS

Year ended April 30

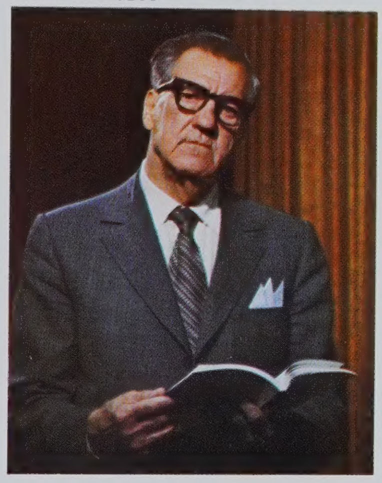
	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
	$	$	$	$	$	$	$	$	$	$
Sales	76,084,930	68,670,017	56,956,164	50,636,008	42,581,264	34,511,342	27,150,658	19,966,503	14,917,766	10,621,311
Earnings before depreciation and amortization, interest and taxes on income	3,950,902	4,381,989	3,252,808	3,271,049	2,716,803	2,189,374	1,707,740	1,039,740	549,167	392,750
Depreciation and amortization (Note 1)	1,199,672	1,110,483	958,516	814,019	693,962	483,576	395,838	315,746	251,170	195,140
Interest	174,032	175,962	195,230	194,858	80,813	51,562	30,038	34,583	21,478	14,014
Taxes on income	1,212,500	1,484,400	1,111,560	1,197,800	1,025,431	857,663	656,419	352,646	137,747	92,850
Net earnings	1,364,698	1,611,144	1,075,002	1,064,372	916,597	796,573	625,445	336,765	138,772	90,746
Shareholders' equity (Note 2)	8,475,193	7,316,581	5,901,457	4,853,593	3,815,981	2,708,463	1,940,340	728,552	391,197	252,400
Shares outstanding (Note 2)	1,720,360	1,720,360	1,719,220	1,718,260	1,717,540	1,703,700	1,703,000	1,600,750	1,589,250	1,584,250
Net earnings per class B and common share (Note 3)	.77	.92	.60	.60	.51	.45	.35	.21	.09	.06
No. of stores (at end of fiscal year)	392	374	340	293	251	201	156	127	101	81
Net fixed asset additions	2,324,134	2,178,436	2,167,127	2,165,236	2,244,977	1,973,365	887,833	655,063	763,908	597,888

Notes

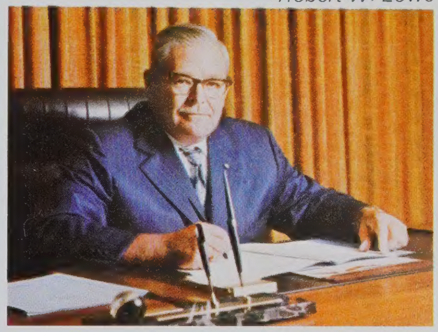
1. *Figures for all years have been adjusted to reflect current Company policy on depreciation and amortization.*
2. *Combined Class B and Common.*
3. *Figures for all years have been adjusted for the ten-for-one stock split of February 28, 1967.*
   Net earnings per share have been adjusted to allow for the current years Class "A" preference dividend.
   Dividends on Class "A" shares from January 1, 1973 to April 30, 1973 amounting to $11,350 have not been declared and/or allowed in computing the shareholders' equity.

Directors and officers

Frank A. Bazos



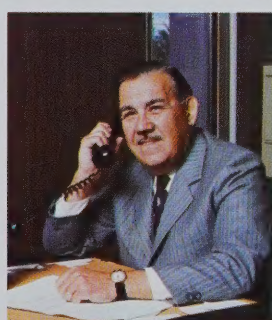
Robert W. Lowe



Robert Bazos

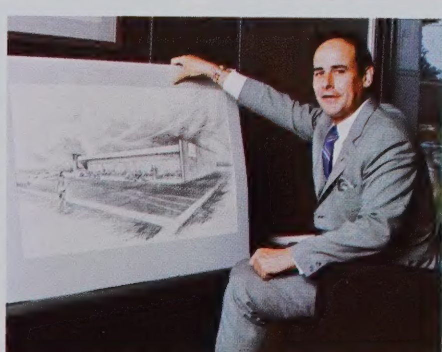
E. S. Miles

William H. Zimmerman



George Panos on right,
Arvi Magi on left.

R. S. Paddon



Geoffrey W. J. Pottow

Board of Directors

Frank A. Bazos	Chairman of the Board The Becker Milk Company Limited
Robert W. Lowe	President The Becker Milk Company Limited
Robert Bazos	President Perrette Dairy Limited
William H. Zimmerman	Queen's Counsel
E. S. Miles	Investment Dealer
George Panos	Vice-President The Becker Milk Company Limited
Geoffrey W. J. Pottow	Vice-President The Becker Milk Company Limited
Arvi Magi	Vice-President — Treasurer The Becker Milk Company Limited

Officers

Frank A. Bazos	Chairman of the Board
Robert W. Lowe	President
Robert Bazos	Vice-President
Arvi Magi	Vice-President and Treasurer
George Panos	Vice-President
Geoffrey W. J. Pottow	Vice-President
R. S. Paddon	Secretary

Registrar and Transfer Agent
The Royal Trust Company, Toronto and Montreal

Auditors
Langlois, Hauck & Company, Toronto

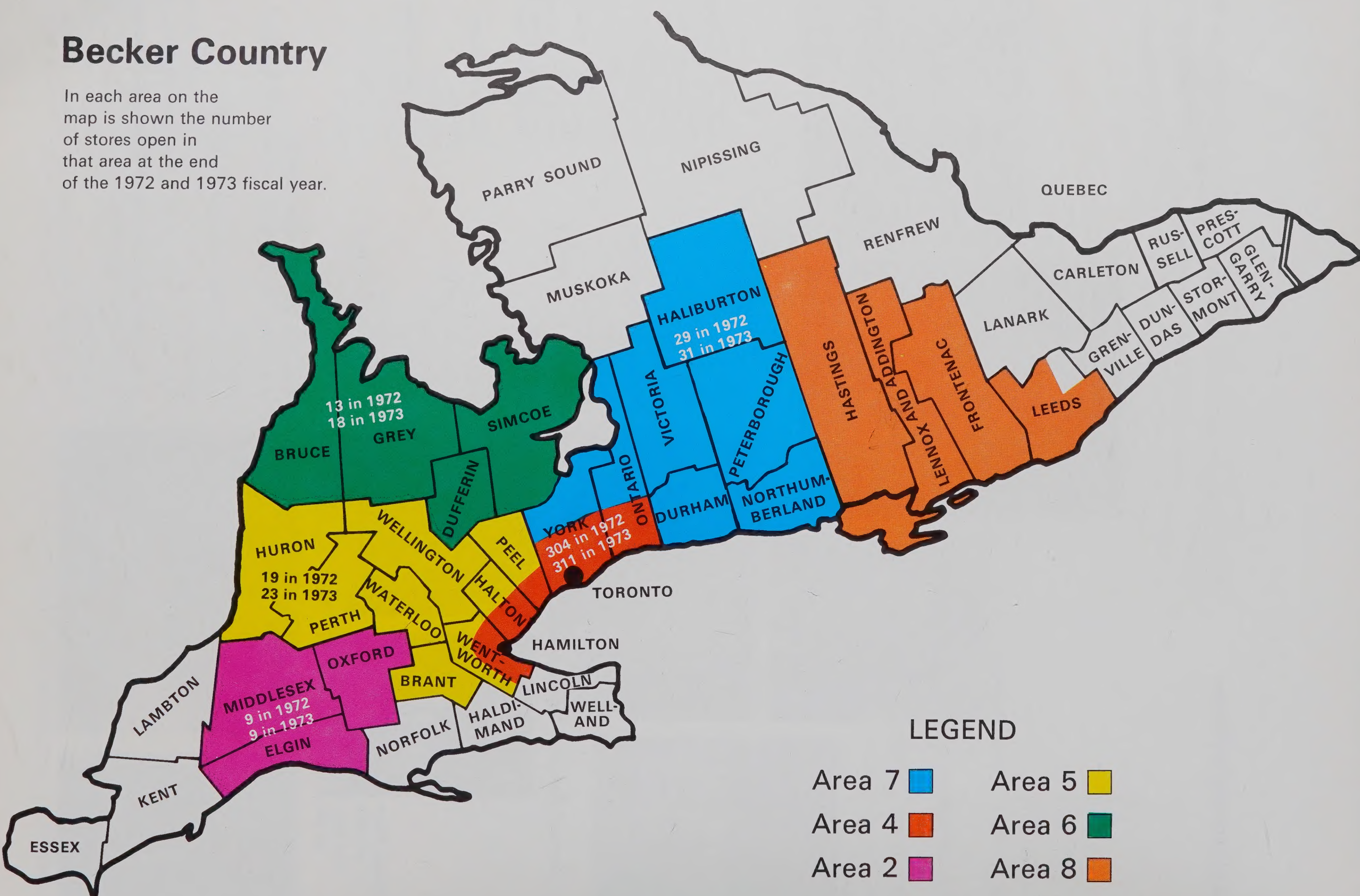
Solicitors
Zimmerman, Grant, Paddon, Bennett & Worley

Stock Exchange Listing of Class "B" Shares
Toronto Stock Exchange

Head Office
671 Warden Ave., Scarborough, Ontario, Canada

Becker Country

In each area on the map is shown the number of stores open in that area at the end of the 1972 and 1973 fiscal year.



BECKER MILK COMPANY LIMITED, 671 WARDEN AVENUE, SCARBOROUGH, ONTARIO